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GENERAL

1. UK Foreign Office views on Soviet aims--US Embassy London transmits the following British Foreign Office estimate of immediate Soviet aims and how the western powers can best meet them. The Foreign Office considers that war is not imminent; the USSR has little to gain from making war in Western Europe and would not wish to assume the responsibility of feeding 40 million Germans and millions of other Europeans. The western policy of firmness is bearing fruit and should be continued; the success gained in the Italian elections should be followed up by every effort to strengthen the Western European Union and to assure the maximum effectiveness of the European recovery program. The Foreign Office considers that the USSR really fears the dollar which offers the best way of meeting the Communist threat. The Foreign Office concludes that the "trend of events in Western Europe would no doubt deflect Soviet attention and intrigue in the first instance to the Middle East, and secondarily to the Far East; in the Far East the first point of intensification would no doubt be Korea."
2. French dubious on Italian inclusion in defense system-- US Ambassador Caffery reports that the French Foreign Office is undecided on the questions of including Italy in a western defense system based on the Brussels Pact and of reconsidering the military clauses of the Italian treaty. A reliable Foreign Office official has expressed the view to Caffery that while France desires Italian inclusion in the Brussels Pact, (a) the Dutch and Belgians are reluctant because of the possibility that they might thus become automatically involved in hostilities in the Mediterranean area, and (b) the French would prefer to find some formula which would permit them to "wink at" the expansion of Italian armament beyond treaty limits without presenting the appearance of abrogating officially the military clauses of the Italian treaty. Caffery says the Foreign Office is considering the possibility of setting up two regional defense

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systems: (1) composed of present signatories of the Brussels Pact and (2) including France, the UK, and Italy, and at a later date, Greece and Turkey. Caffery adds that the Foreign Office believes that Spain must eventually be included in any European defense system, Mediterranean or otherwise, because of its strategic value.

EUROPE

3. AUSTRIA: Strategic commodity stockpiles recommended--
US Commanding General Keyes recommends that the European Cooperation administrator establish emergency 90-day reserves of critical items, particularly oil, as soon as possible and hold them in readiness in or near Austria for immediate supply to Austria in case of actual or threatened failure of the USSR to continue deliveries of these items from sources under its control. Keyes explains that this would minimize Soviet capabilities of exerting economic pressure on Austria and jeopardizing the recovery program in Austria. Keyes emphasizes that these reserves should be over and above any regular ECA allocations.
4. ITALY: USSR willing to discuss commercial pact--US Embassy
Rome has been informed by the Italian Foreign Office that the USSR is willing to proceed with negotiation of a commercial agreement, a commercial treaty, and with a discussion of reparations, including Balkan assets. The Foreign Office adds that the USSR will not demand that these negotiations include an Italian commitment at this time as to the production for reparation payments.

(CIA Comment: Soviet withdrawal from its previous insistence that Italy agree now on reparations from current production (to begin after a 2-year period) may indicate that the Kremlin has decided that the development of trade with Italy is more important than an immediate solution to the reparations problem.)

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5. FRANCE: Optimism regarding Schuman's prospects--US Ambassador Caffery reports that the Schuman Government's refusal to accept recent Gaullist peace offers has infuriated the Gaullists who wish to take over power now; the Gaullists fear that "there will be no reason for De Gaulle," if the Schuman Government succeeds in effecting economic stabilization. Caffery notes increased general optimism that Schuman (a) may succeed in solving the problems which confront him; and (b) may get through the summer months without too much difficulty.

NEAR EAST-AFRICA

6. PALESTINE: Arab states D-Day reported to be 5 May--According to US Ambassador Wadsworth in Baghdad, the Transjordan Minister to Iraq has informed his Lebanese colleague that, under an agreement reached at Amman (Transjordan), 5 May has been set as the date for Arab invasion of Palestine.

(CIA Comment: Invasion of Palestine by the Arab states in the near future appears to be virtually assured. This report is one of several indications that the Arab governments, under pressure of aroused public opinion, may be acting precipitantly, disregarding the fact that they would avoid clashes with the UK forces by waiting until 15 May.)

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